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16 April 2012, Warsaw. Photo by msz.gov.pl

On 16 April, the first working seminar of the European Dialogue for Modernisation took place in Warsaw. It was inaugurated by the Minister of Foreign Affairs of Poland, Radek Sikorski, and the EU Commissioner for Enlargement and European Neighbourhood Policy, Štefan Füle.

In his opening remarks, the Commissioner stated that the EU would continue its tough approach towards the government of Belarus until all political prisoners are released and rehabilitated and steps are taken to improve the approach to democracy and human rights. In conjunction, the Commissioner emphasised the need for the people of Belarus to envisage a brighter future for their country, depicting the European Dialogue for Modernisation as an instrument to meet that end.
The seminar on privatisation opened a series of events that will take place both in Belarus and in countries across the European Union. The objective of these events is to assist Belarusian stakeholders in gaining practical knowledge from EU Member States' experiences in transition processes, and helping Belarusian reform-oriented participants of this Dialogue to establish a vision of a modern and democratic Belarus.

The European dialogue for Modernisation was launched by Štefan Füle on 29 March 2012 in Brussels at a meeting with Belarus Civil Society and political opposition.

Main News

One of the most important events of the last month in Belarus was the unexpected release of two political prisoners. The former presidential candidate Andrei Sannikau walked free on April 14, and one of his main campaign aides, Dzmitry Bandarenka, was released the following day. Officially they were released as the result of a pre-requested pardon asked of President Aliaksandr Lukashenka.

The EU took a strong stance on this situation. High Representative for Foreign Affairs and Security Policy, Catherine Ashton, the President of the European Parliament, Martin Schultz, and EU Commissioner for Enlargement and Neighbourhood Policy, Štefan Füle, all welcomed Sannikau and Bandarenka's release. At the same time they pointed out it was only the first step, stating that all remaining political prisoners must be released and also rehabilitated.

According to Belarusian human rights defenders, about 13 people still remain behind the bars on political grounds, including one of the leading human rights defenders and Nobel Peace Prize nominee Ales Bialiatski who has been detained since 4 August 2011 for alleged tax evasion. On 29 March, one of Minsk's courts additionally fined a detained activist over 140 million rubles (approx 12,700 EUR) due to the alleged late payment of arrears. A co-chairman of the unregistered Belarusian Christian Democratic Party, Paval Sevyarynets, serving a three-year "restricted freedom" and corrective labour sentence for participation in a post-election demonstration of December 2010, was denied an early release at the end of April.

Commenting on the release of Sannikau and Bandarenka, Lukashenka also mentioned that a full-scale amnesty could be considered at the beginning of July. Such actions by the Belarusian state are linked to Belarus' public holidays and are normally meant to relieve densely populated Belarusian prisons.

On 25 April, in response to the release of Sannikau and Bandarenka, **ambassadors from the European Union countries started to gradually return to Minsk**. Envoys from the Czech Republic, Poland, Sweden, Lithuania, Estonia, the United Kingdom, and Hungary, were the first to return while Bulgaria sent back only its Chargé d'affaires.

All EU ambassadors left Belarus in March in a display of solidarity, following the expulsion of a number of other EU member state envoys in February, after the EU extended its sanctions against Belarus. The sanctions targeted 29 Belarusian companies, blocked numerous accounts, and banned 12 additional officials, judges and police officers involved in repressions against the Belarusian opposition from entering the EU. Over 200 Belarus entities and individuals now find themselves on the EU blacklist.

By the end of April, Switzerland joined the EU by tightening sanctions against Belarus, adding 68 names to the list of people barred from travelling to Switzerland or whose assets have been frozen. In addition, 32 companies, most of which are associated with Belarusian oligarch Uladzimir Peftieu (Vladimir Peftiev), have also been added to the list of sanctions.

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Editorial

The seventh issue of Belarus Headlines features news, articles and policy reviews of the most important political, economic and social developments in Belarus.

Among the main events of the last month: the release of two well-known political prisoners, the former presidential candidate Andrei Sannikau and his campaign aid Dzmitry Bandarenka, the launch of the European Dialogue for Modernisation with Belarus as well as the return of EU ambassadors to Minsk after they left during a row between Belarus and the EU.

In his article 'The Law of the Jungle in Belarusian-Russian Relations', Siarhei Bohdan explains why the trade wars between Belarus and Russia, and their outcome, are easy to predict and why Belarus is bound to fall prey to the political approach of Russian economy.

The research section of the Headlines explores the microeconomic stability of Belarus and gives an insight into the future of the economy of the country after Russia joins the World Trade Organisation. The experts of BISS and the Agency for Policy Expertise help to unravel the labyrinth of Belarus' current economic development and its monetary and fiscal policies under heavy external borrowing requirements.

Olga Loginova continues her trail around the Vitsebsk Region and tells another story about the 'Unknown Belarus'. She traces down a Belarusian relative of the Scottish Loch Ness monster. Read her travel notes to find out why lake Lepel is so popular with tourists.


Olga Stuzhinskaya


Tatiana Kouzina


Yaraslau Kryvoi

This issue also evaluates the expertise exchange project which is being operated by the ODB in cooperation with BISS and the Belarusian Union of Transport Workers with the support of the European Commission. The project engages Belarusian experts in different areas to help them increase their capacity by establishing contacts and sharing best practices with their colleagues from the EU and EaP countries.

In addition, you can check our regular overview of the most popular articles on the Belarus Digest web-site, prepared by Yaraslau Kryvoi.

Enjoy reading this issue of the Belarus Headlines and feel free to get back to us with your feedback.

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Olga Stuzhinskaya, director of the Office for a Democratic Belarus
Tatiana Kouzina, executive director of the Belarusian Institute for Strategic Studies
Yaraslau Kryvoi, editor-in-chief of Belarus Digest

Main News

On 18 April, the international rating agency Standard & Poor's (S&P) improved the outlook of the sovereign credit ratings of Belarus. Whereas previously the country's rating was a B-/ C "negative," now the rating agency has provided a "stable" outlook, pointing to the stabilisation of the economic situation in the country.

According to S&P's official report, the strengthening of Belarus' reserves in foreign currency made it possible to improve the outlook following significantly reduced pressure on the exchange rate. The rating agency's experts also said that a slowdown in inflation had a positive impact on the economy in general. **However, the credit ratings of Belarus remain limited** due to political risks and high dependence on external sources of funding. In addition, the analysts said the government's reluctance to carry out necessary structural reforms for economic growth negatively affected the credit ratings of the country. Long-term and short-term ratings (B-and C) may be raised by the agency "in case of an improving current account balance and a reduction in the national debt of the country," said Standard & Poor's.

Belarusian Prime Minister Mikhail Miasnikovich expressed hope that improvement of Belarus' ratings will serve as a good sign for investors. However Belarusian economic analyst Siarhei Chaly noted that the majority of investors do not pay attention to ratings but to numbers showing the so-called groups of risk that are far from optimistic for Belarus.

Meanwhile the National Bank of Belarus plans to launch preparations next year to re-denominate the Belarusian ruble, cutting zeroes off the much devalued currency. In spring, Belarus issued a 200,000-ruble (€19) banknote. Before that, the largest-denomination banknote in the country was worth 100,000 Belarusian rubles.

The Belarusian ruble started to come under inflationary pressure in early 2011 due to a large trade deficit, and generous wage increases and loans granted by the government ahead of the December 2010 presidential elections. The country's deteriorating economic and financial performance earlier prompted Belarus to seek financial aid from the IMF, Russia and the EurAsEC member states.

Announcements



The 2nd International Congress of Belarusian Studies "A Turn to Belarus: Ideas, Methods, Concepts»

The Consortium of Belarusian and Lithuanian organisations under the auspices of the Vytautas Magnus University (Lithuania) and "Political Sphere" Institute (Belarus) is pleased to announce a call for individual applications for the 2nd International Congress of Belarusian Studies "A Turn to Belarus: Ideas, Methods, Concepts", held on September 28-30, 2012 in Kaunas, Lithuania.

Around 200 scholars from around the world, engaged in studying Belarus and the East-Central Europe region, are expected to participate. The Congress will bring together researches of social sciences and humanities, and offer the discussion of regional development issues, Belarus' relations with other countries, and other topical problems.

For further details on the concept of the Congress, its organisers and partners, please visit the Web-site of the Congress www.icbs.lt

The deadline for application is June 15, 2012

Our Projects

EU and Belarus: Sharing Knowledge. ODB Continues Its Expert Exchange Projects

By ODB, Brussels



Belarusian experts in higher education visiting Brussels. Photo by ODB

The Office for a Democratic Belarus has launched a project 'EU and Belarus: Sharing Knowledge' aimed at enhancing communication and expertise exchange between Belarusian specialists in the field of energy, transport and education with their colleagues from the European Union and the Eastern Partnership countries.

In the frames of this project, on 19-21 March, a delegation of Belarusian experts in higher education visited Brussels. A group of specialists representing different higher education institutions of the country attended a series of meetings at the European Commission, the European Parliament, Education, Audiovisual and Culture Executive Agency, as well as the European Association for Quality Assurance in Higher Education.

The Belarusian delegates also paid a visit to Maastricht University in the Netherlands. In the frames of the visit the Belarusian experts had a chance to learn more about EU programmes such as Tempus, Erasmus Mundus and Jean Monnet, to discuss the possibilities of Belarus' participation in them as well as the difficulties and obstacles that Belarusian universities face while implementing these EU-supported projects.

At the meeting at the European Association for Quality Assurance the Belarusian delegates were informed about the principles the Association's activities are based on, the membership criteria, and the organisation's main projects and initiatives. The possibilities for cooperation and joining the Association were also discussed during the visit.

The event followed a round-table organised by the ODB and its partners earlier in Minsk. The meeting gathered around 40 participants representing different governmental institutions and independent associations working in the field of education. The participants of the round-table discussed Belarus' prospects of joining the Bologna process. Having secured the possibility for both the co-authors of the official report on “Belarus' readiness to join the European Area of Higher Education” and the authors of the alternative report with the Independent Public Bologna Committee to present their views, the organisers managed to bring the discussion to the next level.

A series of events and consultations organised by the Office revealed the necessity for a wider range of discussions that would involve many more actors and topics covered. Informal inter-university round-tables on different aspects of the Bologna process, providing the participation of state-affiliated and independent experts, university teachers and students, as well as potential employers, could substantially widen the pool of experts willing to move forward towards the improvement of the national higher education system.

The Office for a Democratic Belarus is planning to conduct two more round-tables/seminars in Minsk with reference to the experience of the EU and other EaP countries in dealing with the Bologna principles. One more study visit of Belarusian specialists to Tbilisi State University (Georgia) is scheduled for early June 2012.



Signing a Project Agreement on Cooperation between Belarusian and Moldovan Unions of Transport Workers. Photo by ODB

Another study tour which was organised by the ODB during the course of the last two months was a visit by Belarusian specialists on transport issues to Chisinau (Moldova). The representatives of the Belarusian Union of Transport Workers had a chance to gain the experience from their Moldovan colleagues who succeeded in reforming the public transportation sector.

During the visit Belarusian experts met with the leadership of the Union of Transport and Road Workers of Moldova (UTWM), visited the Moldovan Ministry of Transport and Road Infrastructure, International Association of Road Hauliers of Moldova «AITA» and its educational centre, a number of bus stations and bus parks of Chisinau.

As a result of the visit a **Project Agreement on Cooperation between Belarusian and Moldovan Unions of Transport Workers was signed.**

The visit of Belarusian experts to Chisinau is one of the two study tours envisaged in the frames of this project. Knowledge and printed materials received by the Belarusian delegation from their colleagues will be used for preparing the concept on “Harmonisation of legislation on passengers' transportation by automobile transport” – a final document of the Permanent Working Group's on Transport Issues activities which is a part of this project. A published concept will be sent to the Ministry of Transport and Communications of Belarus and other relevant governmental and private institutions.

“EU-Belarus: Sharing Knowledge” is the project coordinated by the Office for a Democratic Belarus (ODB, Brussels, Belgium) in cooperation with the Belarusian Institute for Strategic Studies (BISS, Vilnius, Lithuania), Belarusian Union of Transport Workers (BUTW, Minsk, Belarus) and supported by the European Commission. Informational and technical support to the project in Minsk is provided by the Office for European Expertise and Communications (Minsk, Belarus).

This initiative is a follow-up to the previous project coordinated by the ODB that focused on expertise exchange between Belarus and the EU in the field of environmental protection, handling the grave consequences of the Chernobyl explosion, energy, energy efficiency, transport and transit, as well as science and education that was supported by the Swedish International Development Cooperation Agency (SIDA) and the Danish Ministry of Foreign Affairs.

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Most Popular on Belarus Digest

By Yaraslau Kryvoi, London

Belarus-EU Relations

BelarusDigest

The Logic Of Sanctions And Engagement

Devin Ackles discusses the recent pull-out of EU ambassadors from Minsk, which signifies the deeply troubled relations between Belarus and the West. He notes that the goals of Western policy remain largely unfulfilled. The increased isolation has affected Belarus as a whole and despite the clear messages sent to denounce violations of human rights and democratic norms, civil society remains very weak and Belarus' economy has become even more anchored to Russian subsidies. In the months ahead a clear strategy must be developed that goes beyond sanctions and intimidation.

Collateral Damage Of The EU-Belarus Diplomatic War

George Plashchinsky analyses the implications of the EU Council of Ministers recently introduced new restrictive measures against Belarusian businessmen, expecting that it will help release political prisoners in Belarus. He discusses various views on effectiveness of the sanctions. While some experts emphasise the moral importance of sanctions, others believe that they are hypocritical and harmful. They think that the EU is losing its leverage in the country and is forcing its authorities and businessmen to deal more with authoritarian states such as Russia.

Belarus-Russia Relations

Russia Takes Over a Part Of the Belarusian Army

This article discussed Lukashenka's approval of an agreement with Russia to establish the Single Regional System of Air Defence. The defence ministers of the two nations already signed the controversial treaty three years ago. The Russian and Belarusian presidents will jointly appoint the commander of the air defence system. This effectively means that a portion of the Belarusian armed forces will be brought under Russian command.

Ukraine And Belarus: Friends Against Russia?

George Plashchinsky observes that the EU External Action Service faces a stubborn unwillingness by two post-Soviet countries to listen to its advice on political reforms. Both countries are under increasing pressure from Moscow to participate in its new integration initiatives, which should motivate Belarus and Ukraine to actively cooperate on the basis of common interests. But instead the two countries often clash with each other. In March Ukraine prohibited imports of Belarusian meat and dairy products. It raises the question of whether Victor Yanukovych and Aliaksandr Lukashenka have enough political will to improve their relations and strengthen the sovereignty of their countries.

Politics

Faces Of Belarusian Politics: Viktar Lukashenka

Siarhei Bohdan writes on a big enigma in Belarusian politics - Viktar Lukashenka. The 36 year-old lieutenant-colonel and the oldest son of the current ruler is rumoured to be the next leader of Belarus. Although Lukashenka has three sons, only Viktar acts as a political figure. Since Viktar became National Security Aide to his father, many analysts have come to explain every move inside the regime in terms of Viktar's influence. On his trips to Arab countries Viktar Lukashenka meets future successors of Arab leaders as his counterparts. But his father does not intend to step down anytime soon. He is just 57 and has no evident health problems. Viktar may have to bide his time.

Social

Orthodox Church Is Losing Belarus

Statistics presented last week by Lieanid Huliaka, the Commissioner for Religions and Nationalities suggests Belarus is turning away from the Orthodox Church. Belarusian Protestants are the most active churchgoers, while Orthodox Christians are the least active. Only state support allows the Orthodox Church to keep up the appearance that it dominates religious life in Belarus.

Women's Day In Belarus: Celebrating The Real Heroes

Nadine Lashuk discusses women's rights in Belarus. On 8 March, Belarusians celebrate International Women's Day. In the tradition of the Soviet Union, there is no special day for lovers such as Valentine's Day, but men and women have separate holidays. This is the time to look at the relations between men and women in Belarus. Although both are equal under the law, in reality, women are not as equal as men.

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Politics and Society

The Law of the Jungle in Belarusian-Russian Relations

By Siarhei Bohdan, Berlin



Photo by belmarket.by

In the last week of March, flights between Minsk and Moscow suddenly stopped after Russia recalled the licence for flights to Russia from Belavia, the Belarusian national airline. The Belarusian side responded by cancelling the licences of Russian aviation companies. Yet, this new trade war between Belarus and Russia followed the pattern of previous conflicts. After Russia prohibited Belavia's flights to Russian regions, Minsk effectively gave in to Moscow's demands.

This conflict yet again reveals the tough methods Russia employs to promote its economic interests in Belarus. As Belarus' conflict with the West escalates, Lukashenka feels unsafe on the Eastern front where Moscow is taking advantage of his weakness. However, this and other trade wars do not mean that Russia will decide to "civilise" the Belarusian ruler any time soon. A weak and isolated Belarus is easy prey for Russian economic advances.

The Airlines Trade War

Previously, the frequency of flights operated by Belarusian and Russian air companies between the two capitals was regulated on a parity basis to include four flights a day from each side. However, only slightly more than a half of the seats on these flights were filled, which made them unprofitable. Increasing the frequency of flights would certainly have brought losses to Belavia.

The Russian side is apparently eager to return the Soviet era framework when Belarusians flew into the world through Moscow. The Russian companies know that Belavia provides expensive fares and is not good at marketing its flights. It relies on Belarusian government support and effectively acts as a monopoly in the Belarusian market.

Meanwhile, Belarusians increasingly fly with low-cost companies from airports in Lithuania, Russia and Ukraine. Belavia has even received criticism from Prime Minister Myasnikovich. Just about 1 million passengers fly through the large yet dilapidated Minsk airport, while annual passenger numbers even for much smaller Vilnius airport are five times higher.

Russian companies are willing to conquer the new market by proposing cheaper tickets for Belarusians flying abroad via Moscow. However, they are constrained by the frequency of flights. Once this barrier is removed, they will be able to overtake the market and effectively drive Belavia into insolvency.

The new trade war demonstrates that Lukashenka is not prepared to give up any assets to Russia, and even the confrontation with the West cannot change his mind. Lukashenka does not prefer Russia over Europe, and his conflicts with the outside world stem from pragmatic interests free of any ideology.

But he would be unable to withstand any significant pressure exerted by Moscow. After the Belarusian government understood that it would be forced to open up its air transport market to Russia, the transport minister said that Belavia may be privatised in 2013. Most probably, Russians will buy it.

The Failure of Belarusian Trade Expansion in Russia

The current "airlines war" is neither the biggest nor the most important trade war. The disputes over the exports of Belarusian goods to Russia and the transit of Russian gas and oil made many headlines across the world in the 2000s and were much more serious. There were also conflicts related to the export of agricultural products. The trade wars with Russia are much more dangerous to the Belarusian regime than all its troubles with the West. The nightmare of Russia closing its borders to Belarusian exports constantly haunts the Belarusian ruler.

In March, Moscow threatened to stop Belarusian milk exports to Russia. This was not the first in the series of "milk wars". Russian businesses have been eyeing the Belarusian dairy industry for a long time, and Lukashenka signed the first agreement on selling dairy branch enterprises to Russians in 2008. But as with many other agreements, he was in no hurry to deliver.

A little milk war waged by Moscow the same year made him sell just one enterprise. The next conflict, in June 2009, was the biggest of all. Then, the Belarusian ruler publicly declared that Russia wanted to take over Belarusian dairy production. However, he lost the dispute and had to concede one more dairy producer to Russia. Another milk war took place in 2010.

Belarus has also lost several sugar wars to Russia. In 2005, Russia accused Belarus of "dumping" by selling cheap sugar made from the Cuban sugar cane. Moscow emphasised that the agreements on Belarusian sugar exports applied only to the sugar products made from the local beets. The low-intensity dispute lasted for two years until in 2007 Belarus had to cut its exports. It was painful, as Belarus had taken up to 10 per cent of the Russian sugar market by that time.

In November 2011, the Belarusian ruler promised that "[a]fter the establishment of the Single Economic Space, milk, sugar and other trade wars [would] disappear." The Customs Union between the two countries already prohibits trade barriers. However, the agreements between the post-Soviet nations tend to be less stable than similar agreements among the Western countries.

This is why trade wars in this region are such a frequent occurrence: nobody trusts the letter of the law. Instead of resorting to courts or arbitration, the governments and corporations in the post-Soviet space tend to use whatever coercion tools they have: they turn off gas, shut down borders, etc.

Or, as the head of presidential administration of Belarus Uladzimir Makey put it, "A jungle law effectively dominates the world. "Everyone for himself", i.e. the rule of the stronger functions, i.e. the stronger party has the right and will dictate his will." No wonder that in airline war Belarus declared its intent to resort to arbitration court yet failed to carry it out.

Political analyst Alyaksandar Klaskouski warned in December that Putin could now "take Lukashenka by the throat demanding the implementation of integration projects" that would begin with the creation of the single economic space and culminate in the establishment of the Eurasian Union. Indeed, Putin has recently declared the establishment of the Eurasian Union one of his main priorities as president. As a result, the Belarusian regime will be forced to open its borders and undertake economic reforms, particularly in the wake of Russia's accession to the WTO. Undoubtedly, in this case they will serve Russian interests.

Nothing Economic, Just Politics

Past trade wars between Russia and its neighbours prove that the sources of such conflicts lie beyond pure business interests. They are primarily linked to the political ambitions of the Russian government. This became obvious after Moscow initiated multiple conflicts with the post-Soviet nations over gas, banned Georgian wines, Latvian fish, and

Politics and Society

The Law of the Jungle in Belarusian-Russian Relations

By Siarhei Bohdan, Berlin

Ukrainian cheese. In recent weeks, in an effort to exert pressure on Baku as a Russian radar station on its territory is being negotiated, Russia threatened to restrict Azerbaijani exports of vegetables and fruits.
Trade wars with today's Russia are not like business disputes in the Western world. While Russia demands the liberalisation of the air transport branch from Belarus, referring to some agreements between the two countries, it is delaying opening up its own air space for the German air companies, despite its WTO accession. Of course, Belavia has to improve its performance and offer cheaper fares. But now the prospects of Russian-style liberalisation will equate to replacing an uncompetitive but technically reliable national air company with some Russian airlines notorious for their ever deteriorating flight safety.

The Belavia affair is just one instance of the increasing danger to the future of Belarus as an economically viable nation. The country's relations with Russia are far less rosy than the way in which Lukashenka presents them. The Russian administration and business community are aware of Lukashenka's vulnerabilities. In conflict with the West, Lukashenka is all the more dependent on Russia.

And Russia has learned the lesson from an earlier integration project pursued by Lukashenka and the late Boris Yeltsin. Then, the Kremlin generously forgave Belarusian debts and sent gifts to Minsk because the Russian leadership believed that it would soon grip the whole of Belarus and that such generosity would bring a much bigger gain. It did not – as Lukashenka turned out to be just an opportunist and not an ideologically charged ally of Russia. Thus, at least since mid-2000 Russia began to count the benefits and costs in its relations with Belarus, as well as squeeze Belarusian business from Russian markets in a series of trade wars. These days, the Russian ambassador to Belarus outwardly predicts the introduction of the Russian rouble in Belarus and is warning the Belarusian authorities against cooperation with Chinese car manufacturers harmful to Russian interests.

Lukashenka's troublesome relations with Moscow do not mean that Russia has finally decided to civilise the dictator. The Russian leadership merely wants to strengthen their control over the Belarus leader and are not going to change the absolutist features of his regime or stop his persecution of the opposition.

On the contrary, the more political prisoners Lukashenka holds, the better for Moscow. They make Russia look more democratic in the eyes of the West. They also increase Belarus' dependence on Moscow - as the democratic Western governments become even more reluctant to deal with his regime. This rule works not only for Belarus, but also for other autocratic regimes across the world - from Syria to Uzbekistan.
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Research

Belarusian Institute for Strategic Studies biss

In this section the Belarusian Institute for Strategic Studies and the Agency for Policy Expertise present a digest of their new studies, publications and expert opinions on the most burning issues of political, economic, and social life in Belarus.

RUSSIA IN THE WTO: EFFECTS ON BELARUS

Belarus' WTO membership prospects are currently unclear, while Russia's membership in the Organisation poses a real threat to the viability of Belarus' unstable economic model.

Specifically, changes in the customs tariff rates may cause Belarus to lose some of its exports, which will result in reduced currency receipts from foreign supplies. If the status quo remains in the Belarusian economy (administrative redistribution of resources, subsidies, absence of stimuli to enhance competitiveness, non-transparent investment policy, delays in its WTO accession campaign, etc), the adverse impact of Russia's membership in the WTO will only become more significant.

Belarus has stepped up its WTO accession efforts, according to reports issued in early 2012 by the Belarusian Foreign Ministry. Yet, this process will be anything but simple amid the current disagreements with the EU and the United States, the instability of the Belarusian economy and the specific nature of Belarusian legislation. Belarus still has some hope of Moscow's help (at least Russia promised not to make any independent requirements during Belarus' WTO accession process), but it is also an open question as to whether this assistance will be offered at all, or if there is a technical possibility for providing this help.

Therefore, there is no other way for Belarus but to speed up internal economic reforms. Below are some rational options for Belarus under the circumstances:
1. Structural analysis of the legislative framework aimed at identifying any provisions that run counter to the WTO standards and rules. It is necessary to carry out a detailed and thorough analysis of regulatory acts leaving out all the unique features of the economic model (targeted privileges, case-by-case support, state subsidies, etc.). They may not be completely abolished during the current phase, but it would be helpful to gauge the real scope of apparent contradictions with a view to working out a strategy to resolve them.

2. Working out a strategy towards the harmonisation of domestic procedures with the WTO rules. Based upon the results of the analysis of the nonconformities of the existing Belarusian model to the rules and standards of the WTO it is necessary to map out an adequate strategy for bringing customs procedures, currency regulations, tax and loan rules, etc. in line with the WTO requirements, while analysing the real losses the national economy will incur from any regulatory harmonisation and taking prompt and extraordinary measures to minimise these losses.

3. Russian market access. One may expect foreign investors to finally come to Belarus, but the reality is that Russia's accession to the WTO will likely reduce already depressed investment activity in Belarus rather than boost it. At the same time, the Russian market has become more attractive to foreign investors, and on this basis, cooperation projects with Russian (optionally, Western) capital and the creation of companies (including productions) in Russia by Belarusian businesses will enable Belarus to create additional sources of foreign exchange receipts. At best, it may also lead to their eventual return to the Belarusian market having made use of Russian technologies, production modernisation opportunities, marketing channels and, finally, Russian financial backing.

4. Creation of a consistent, comprehensible, transparent, uniform investment environment. In order to encourage foreign businesses to invest in Belarus, this country needs to adopt a consistent unified procedure for market entry, give up the practice of offering individual terms, and introduce a clear algorithm for investors. The existing system of the custom-tailored approach to every large investor not only fails to comply with international rules and standards, but also promotes case-by-case opportunistic sales, thus reducing the overall investment appeal of the country. Belarus has earned a reputation for being an economy, in which the system of investment decision-making is personified and depends entirely on the opinion of specific actors. This approach might interest capital coming from certain jurisdictions, but makes the arrival of real investors, in which any economy would be interested – large transnational corporations – hardly possible at all.

The full text of the survey is available in Russian on the BISS website.

Research

External Debt Growth Factors: The Need for Stringent Monetary and Fiscal Policies

By Inna Bukshtynovich, Stockholm

The issue of external debt has been high on the global agenda since the financial crisis shook the world economy. Many countries attempted to support long-term growth and constituent welfare systems by increasing their external debts. However the growth of these external debts negatively impacted the economic climate in these sates and brought the threat of further credit crunch, which some countries in Europe had to address by cutting down on public spending. Belarus is also facing a growing external debt with its levels going up to 62.3% of GDP amid the devaluation of the Belarusian ruble in 2010. This exceeded the 55% threshold set out in the national security concept in 2011, as well as the suggested 60% threshold for external debt to start affecting long-term growth, as outlined in a study by Rogoff and Reinhart in 2010. BISS fellow Hleb Shymanovich presents an analytical report investigating Belarus' external debt growth factors, which will be important for the elimination of these factors in the future.

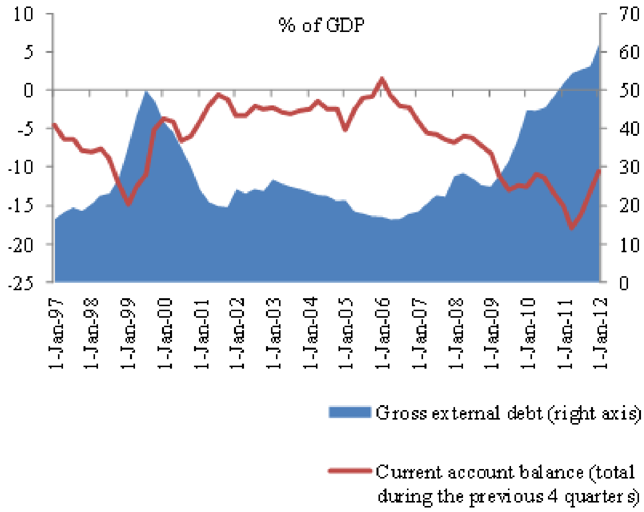
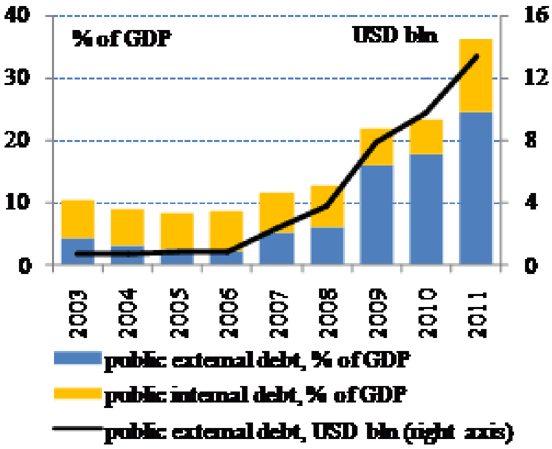


Figure 1. Change in gross external debt and current account deficit (Source: calculations based on NBB, Belstat data)

The investigation starts with the analysis of external debt sustainability. Two indicators raise doubts about Belarus' ability to manage its external debt without endangering its economic growth: gross external debt is forecasted to reach 85% by 2016 and anticipated servicing costs of external public debt becoming substantial in the long run (3.5% of GDP in 2012).



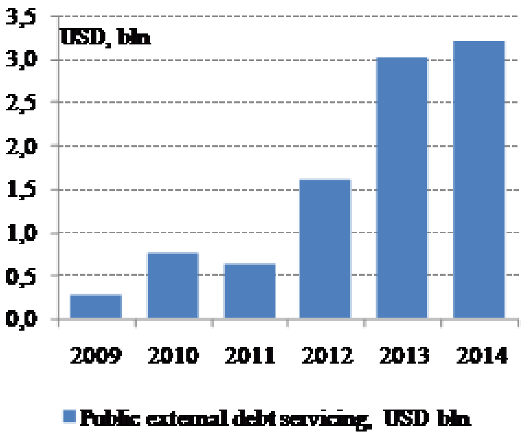


Figure 2. Change in public external debt and servicing costs (Source: calculations based on Finance Ministry, NBB, Belstat data)

External debt can impact a country's economy in a number of ways. First, it might result in "debt overhang", a situation where the level of external debt exceeds a country's capacity to repay it, leaving incentives to invest in the economy nonexistent. Second, significant external debt servicing expenses create a crowding out effect. In the case of public external debt it means a reduced capacity of the state budget to finance alternative expenditures, including infrastructure, healthcare, and education, which undermines long-term economic growth. Third, high external debt stocks cause uncertainties about the exact effect of external debt on the economy. Under such conditions, investors tend to postpone investment decisions.

The study finds that the main reason behind the growth in Belarus' gross external debt is the active administrative regulation of the economy, including directed lending. This increase in external debt aims to maintain the high rate of economic expansion; yet, the inconsistency of this growth leads to the accumulation of structural imbalances.

Shymanovich concludes that Belarus needs to revise its economic policy in order to minimise external borrowing requirements. The country should aim to maintain macroeconomic stability rather than high growth rates, which calls for stringent fiscal and monetary policies. This would help stabilize prices and the foreign exchange rate and secure a balanced current account.

The blitz in English and Russian and the full version of this analytical report in Russian is available on the BISS website.

Forced Privatisation

Tatiana Manionak of the Agency of Policy Expertise discusses privatisation, an inevitable condition for Belarus to be able to borrow externally, and in particular, in meeting the requirements of a loan from Eurasian Economic Community (EurAsEC). The first two tranches of $3 billion loan were delivered in 2011; however, the third will be approved upon the condition of structural transformations, e.g. privatisation.

A preliminary list of 19 strategic assets for sale has been submitted to the Presidential Administration. However Belarus can afford to procrastinate on its efforts to privatise, while it enjoys the benefits of integration associated with the Common Economic Space (CES) ($2.2 billion in gas and $600 million in oil) and the sale of 50% of stocks Beltransgaz ($2.5 billion), which have temporarily addressed the foreign currency deficit.

Another challenge facing Belarus is the increased competition in the CES relating to Russia's accession to the WTO. Minsk's solution is to create holding companies in order to force the creation of large national entities intended to compete with Russian companies. The Belarusian holding companies in "socially sensitive" sectors, such as milk processing, are expected to be run by the state. Conversely, the holding companies in other sectors are designed to raise the interest of the Kremlin. Primarily, this is a defensive response: not only will it generate good money for these assets but it will earn the loyalty of the Kremlin on a number of other issues, such as providing new loans or other preferences.

The full version of this article in Russian is available on the BISS website.

Unknown-Belarus

Lepel: the Land of Many Lakes and One Monster

By Olga Loginova, New York



Tracking down the Monster in Lake Lepel

For years this has been one of my favorites – the story of how we tracked down the Lepel Lake monster. It involves several characters – myself, my indispensible camera person Sasha (who actually ended up in New York with me), a local policewoman and a good portion of 'The Black Knight' cognac (FYI consumed only for medical purposes).

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It was sometime around Halloween, and the Newsroom was thirsty for out-of the ordinary kicker stories. Surfing through the web, I found this absolutely fantastic lead on a Loch Ness-like monster living right in our backyard, – in Lake Lepel, Vitsebsk region.

We set out on a 3-hour journey up north with a threatening note from the editors: dead or alive we had to bring footage of the monster. Two pairs of rubber boots, an underwater camera and an unbound imagination – this was the gear that was supposed to help us find the monster.

It started as a traditional October day, sentimentally beautiful, and very cold. To kill some time, I was scanning through historic materials I found about the town. Not much, but to the point. Here are just a few interesting facts, for your future reference.

The town's name derives from a Latvian word 'liepa' which means water-lily, reminding the modern Belarusians of their Baltic roots.

The first time the town of Lepel was mentioned in history, was the year 1439, when Duke Michael, the son of the Duke of the Great Duchy of Lithuania **Zhyhimont** (Sigismund), forwarded the Lepel estate to the Catholic Church of Vitsebsk.

In 1586 Lepel was purchased by the future chancellor of the Duchy, Lew Sapieha – a prominent name in Belarusian history. Twenty years later he signed the town off to the Bernardino Nuns. Since 2010, a monument erected to honour the great Belarusian diplomat together with St Kazimir Church and a Synagogue became one of the town's attractions.

Later, Lepel was annexed to the Russian Empire before becoming part of Polatsk Province. Later on it was included in Vitsebsk province, and in 1805 it received a semi-independent status.

Lepel residents did not think twice, when they sensed the Ghost of Communism in the air – it took only two days in November, 1917 to establish Soviet rule. This undoubtedly jinxed their luck – within the next 30 years the town was occupied three times: first by the Germans, then by the Poles, and then again by the Nazi Germans. During the last war, Lepel shared the tragic destiny of many Belarusian towns – 37 villages surrounding it were burned down, some of them with their residents.

After the war, Lepel slowly recovered. Now, with more than a hundred beautiful lakes and forests that remain the main natural resources and treasures of Lepel region, the territory boasts a constant influx of tourists from Belarus as well as from neighbouring Russia.



One of the "portraits" of the Lepel Lake Monster

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We pulled into the driveway. Alina Stelmakh, the director of Lepel Museum of local History, gave us a quick tour of the one-storey wooden museum, founded in 1953 by two History teachers. She was prepared for my question about the Lepel monster. Back in her office she took a book from her table, and read out loud: '… Fools were those who had forgotten that Lepel Lake did not return its dead. But that year even the most stubborn disbelievers were shattered… In one night forty dragons were found dead on the shores, and half of that number was floating on the waves like drifting islands. And the next morning another half of the monsters were found dead in the lake … – this is what **Uladzimir Karatkevitch** wrote about Lepel Lake in one of his many best-sellers "Christ landed in Harodnia". What if one of the monsters had survived?'

Excellent start! Our next stop was at the local militia station. There is one quality that unites all provincial militia in Belarus - they are extremely nice people, when it does not come to any kind of social protest or politics. If in Minsk, you generally have an unpleasant experience dealing with law enforcement; it is the opposite in the provinces, where the HQ of the local militia is the first place you should stop for information.

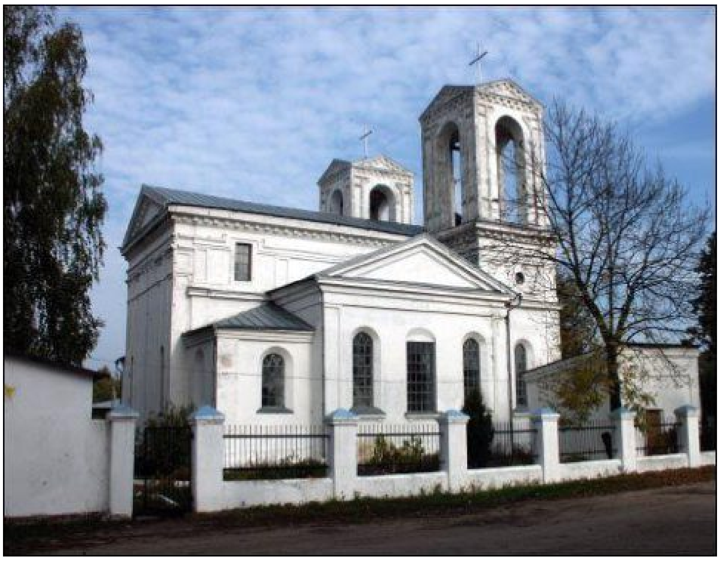
A hot pot of freshly brewed coffee, a bar of chocolate, and a bag of sugar biscuits – can you imagine a better conversation starter? Larisa, the lovely militia officer delegated to work with us, was eager to hear gossip from the capital – the best night clubs, celebrity affairs, scandalous divorces and political undercurrents. (Before coming to Lepel she studied in Minsk, and missed the Big City life). A few tabloid details later, a miracle only possible in a small town happened- without tiresome negotiation and bureaucratic traps, Larisa was absolutely delighted to provide us with four-year-statistics on missing people in Lepel (among them six people were dead or missing in the proximities of the Lake, none of the bodies found; in one case the agents found a boat entangled in the fish nets on the beach). What more could you hope for than going on a fantastic assignment like this one?

Our next destination was a town bridge across the lake - the site frequented by local fishermen and romantic couples. We parked near the boardwalk, and decided to look around and get some footage of the town.

Unknown-Belarus

Lepel: the Land of Many Lakes and One Monster

By Olga Loginova, New York



St. Kazimir Church in Lepel. Photo by Shastouski

At last we reached the bridge. Despite the nasty drizzle, fishermen were at their posts, staring silently into the dark depths of the lake. Amazingly, each of them had his unique monster story. Some described it as a huge sheatfish-looking creature, others saw a dragon that rocked boats at night and wailed at the stars. Fisherman Andrei told his brother-in-law's tragic story: 5 years ago there was supposed to be a wedding in the family, and several days before the grand event, the young couple decided to take a boat ride. The groom was on the roars and the happy bride was enjoying the scenery. Suddenly, the girl saw something in the water, she bent slightly over, and instantly the huge monster's head emerged from the lake and dragged her under the water. The boy jumped into the lake to save his beloved one and never came back. The witnesses of the tragedy were fishermen, who had watched in horror from that same bridge we were standing upon.

A heavy silence fell over us. Somehow the prospect of a monster search was not appealing any more, but we were far beyond the point of no return.

En route to the lake we parked by a liquor store and bought a bottle of cognac – to keep us warm and brave.

And there it stood, magnificent in its solemn dignity – the Great Lake that for centuries kept its secrets from idle travelers and eager writers. Not a wave stirred its tranquil surface that like a mirror reflected the sky and the trees. An abandoned boat lay upside down buried in the sand on the shore. Transfixed, we stood there on the beach, mesmerised by the size and beauty of the lake.
But we had no time to lose, - the light was getting dimmer, and so Sasha, my camera girl, and myself, put on the rubber boots, took several gulps of cognac, and stepped into the icy water.

We were through with recording my presentation. Sasha was getting the underwater footage, while I walked idly in the water taking pictures with my cell phone. I turned to Sasha to wave her back, and realised something was wrong. She stood there with a camera in her hand, staring intently in the water's depths. I looked up to see what caught her attention and froze – an unnaturally large disturbance broke the glass surface of the water.

I looked at Sasha, and as if reading my thoughts she turned around and ran, just as I did. Too scared to think or look back we jumped in the car. In a second we were gone and away from the Lake's face.

Was it the cognac, or just our imagination? I don't know, but I can swear, when I watched the underwater footage, I could see the huge shadow gliding through the water.

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In Fact

•Uladzimir Karatkevich **(Karatkevitch)** is a Belarusian writer, poet, essayist, translator, and screenwriter who wrote on historic topics, re-discovering Belarusian history for his readers. 'Most previous Belarusian authors inspired love for Belarus, which could hardly be distinguished from pity. The love for Belarus inspired by Karatkevich is more close to respect and pride. He teaches the reader to love Belarus not **in spite of**, but **because of** the way it is' writes a modern Belarusian poet, Andrei Khadanovich. Many of the books by Karatkevich have been translated into English, Czech, Polish, Russian, Ukrainian and other languages.

•Belarus has more than **10 thousand lakes**. This huge number of water reservoirs supported by more than 28 thousand small and big rivers has given Belarus one of its metaphoric names – the Blue-Eyed Land. Most Belarusian lakes appeared during the Ice Age. The biggest lake in Belarus is Narach with a surface area reaching 79,6 square kilometres. It has become a tourist attraction both for visitors outside and inside Belarus. In 1999, a National park was created around the lake to preserve the unique area.

•**Zhyhimont the son of Keistut**, (Sigismund, about 1365 – 1440) was the Grand Duke of Lithuania, a brother of Grand Duke Vitaut. Zhyhimont is known as the author of the so-called privilege of Troki (Trakai Priveledge) that officially granted the same rights to the nobles of the Great Duchy of Lithuania despite their religious believes.

Belarus Headlines is a joint project of the Office for Democratic Belarus, Belarus Digest and the Belarusian Institute for Strategic Studies. More information about these organisations can be found on their web pages.

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